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SUBJECT: GOI Takes Additional Steps to Bolster
Confidence in Financial Markets

Refs: (A) Jakarta 1897 (B) Jakarta 1875

1. (SBU) SUMMARY: The government of Indonesia has taken additional important steps to increase liquidity and bolster confidence in its financial markets. Actions included increasing by 20-fold the amount of bank deposits subject to government guarantee, reducing minimum reserve requirements on foreign currency deposits from 3% to 1%, and further facilitating the buy-back of shares by state-owned enterprises. Markets recovered following the October 13 re-open of the Indonesia Stock Exchange, before giving back gains later in the week. The government continues to temper expectations about future economic growth in the wake of the global financial turmoil and has again revised the 2009 budget to reduce the budget deficit (to 1% of GDP) and limit needed financing. World Bank officials in Jakarta confirm GOI interest in a \$2 billion stand-by loan, as the government seeks to secure alternative sources of financing. END SUMMARY.

STOCK MARKET RE-OPENS OCTOBER 13
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2. (U) The Indonesia Stock Exchange re-opened on Monday, October 13, after halting trade from mid-day October 8 through October 10. After falling by more than 6% at the open on October 13, the Jakarta Composite Index recovered to close higher by 0.7% on heavy trading volume. Markets staged a more dramatic rally on October 14, closing up 6.4%, on lower trading volumes, before pulling back on October 15 (down 2.3%) and October 16 (down 3.8%). The rupiah strengthened early in the week, recovering from 3-year lows reached in late trading on October 10, but gave back ground on October 15, closing at 9772/USD according to Bank Indonesia. (Note: The rupiah has depreciated by 3.2% against the USD from September 16 to October 15.) Indonesian government bonds remain weak. Despite recovering slightly on October 15 (with yields declining to 14.37%), prices for the benchmark ten-year bond fell again on October 16, pushing yields up to 15.27% mid-day.

3. (U) Embassy spoke with several local economists and analysts, who

generally agree that following the panic which struck the Indonesia Stock Exchange on October 8, local investors re-entered the market when it opened October 13, viewing current valuations as attractive.

Chatib Basri, an economist who also serves as an advisor to the government, told Embassy that President Yudhoyono (SBY) had ultimately recommended against re-opening the stock exchange on Friday, October 10, when it became clear that there would be a large demand for U.S. dollars, putting additional pressure on the rupiah. Basri said concerns about the Bakrie group (reftels) had played no role in the decision to close the stock market and that State Minister Bakrie was playing no role in the government's response to the financial crisis.

GOI AND BI TAKE ADDITIONAL MEASURES TO BOOST CONFIDENCE

14. (SBU) Indonesian authorities have moved quickly to increase liquidity and confidence in local financial markets. On October 13, SBY issued a regulation in lieu of a law that allowed the Indonesia Deposit Insurance Corporation to raise the deposit amount subject to government guarantee from IDR 100 million (about \$10,000) to IDR 2 billion (about \$200,000), to maintain depositor confidence. The new, higher limit reportedly will completely insure 97% of depositors.

15. (U) On October 13, the Finance Ministry also announced the issuance by SBY of a regulation in lieu of a law expanding the types of bank assets that can be used to access Bank Indonesia's short-term financing facility.

16. (U) On October 14, Bank Indonesia Governor Boediono announced the

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following steps to ensure rupiah and foreign currency liquidity in the domestic market:

- extension of the tenor of foreign exchange swap facility from a maximum of 7 days to one month to satisfy the temporary demand for U.S. dollars (effective October 15);

- supplying foreign currency for domestic firms through the banking sector (no further details, effective October 15);

- reducing the minimum reserve requirements on foreign currency deposits from 3% to 1% to add to the availability of USD liquidity (effective October 13, this should inject about \$700 million in USD liquidity to the banking system);

- lifting a limitation on a minimum daily balance on short-term foreign loans to reduce pressure for the purchase of USD (effective October 13);

- simplifying the calculation of minimum reserve requirements on rupiah deposits to have a maximum 7.5% statutory reserve requirement (effective October 24).

STATE-OWNED ENTERPRISES BUYING BACK SHARES

17. (U) On October 14, parliament approved a Ministry of Finance proposal to use Rupiah 4 trillion (about \$409 million) in state budget funds to buy back shares in state-owned enterprises. Separately, nine other state-owned enterprises have announced plans to fund additional share buy-backs worth over \$800 million using their own funds. Stock exchange trading limits have limited the amount of shares firms have been able to purchase on any given day. Embassy understands the Stock Exchange may be increasing the upward trading limit to facilitate more rapid buy-backs of shares. Meanwhile, the Capital Market and Financial Institutions Supervisory Agency (Bapepam-LK) and an inter-agency task force is also investigating foreign and local securities firms regarding alleged short-selling and other possible securities violations. Rumors have been rife regarding the role of short selling and possible rumor-mongering to drive down certain stocks.

LOWERING 2009 BUDGET DEFICIT, ADJUSTING EXPECTATIONS OF FUTURE

ECONOMIC GROWTH AND SEEKING ALTERNATIVE FINANCING

18. (SBU) Recognizing the headwinds facing the Indonesian economy in 2009 as a result of an expected global slowdown, the government submitted revised economic assumptions for the 2009 budget to Parliament on October 13. The parliamentary budget committee and government agreed to lower projected economic growth to 6.0%, from the previous 6.3% forecast. In order to decrease financing costs in the current unfavorable climate, the government and budget committee have agreed to reduce further the 2009 budget deficit to 1.0% of GDP, which may nearly halve previously announced 2009 financing requirements.

19. (SBU) On October 15, World Bank officials in Jakarta confirmed that the Indonesian government has requested World Bank assistance in the form of a \$2 billion stand-by loan, as the government seeks alternative sources of future financing. Officials here describe discussions as preliminary. The World Bank is apparently willing and committed to being of assistance given the current global financial crisis and Embassy understands there were some discussions on the subject on the margins of the annual Bank/Fund meeting. Local press reports quote Philippine President Arroyo as stating that ASEAN plus three (China, Japan and Korea), the World Bank, IMF and ADB are in the process of establishing a stand-by facility to assist ASEAN countries affected by the global financial crisis.

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Other reports quote World Bank officials, who stated the Bank had not yet discussed plans to create such a regional facility.

BAKRIE FIRMS REMAIN SUSPENDED FROM TRADING

10. (SBU) Speculation continues regarding the future of the six Bakrie group firms, which remain suspended, as their owners seek to conclude a sale of assets in a bid to raise \$1.2 billion to pay debts. The press reports that the firms were required to top up collateral after the prices of shares pledged to secure the loans had fallen. Bakrie group officials made a public presentation on October 12 regarding plans to sell assets to repay outstanding loans. The officials reportedly requested that trading in the shares of the six firms remain suspended for the week of October 13 as the group attempts to complete negotiations of share sales. On October 15, State Enterprises Minister Sofyan Djalil reportedly told press that if state enterprises such as PT Tambang Batubara Bukit Asam or PT Aneka Tambang wish to acquire shares in Bakrie's BUMI coal unit and have funds available to fund the purchases, the government would not object.

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